

Mr. Steen Lau Jorgensen

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Dear Mr Jorgensen,

The External Advisory Group (EAG) on implementation of the World Bank Forest Strategy held its fourth meeting on 21st and 22nd February, 2006 in Washington, D.C. As you will be aware the role of Chair has passed from Arvind Khare to me. The intention is that I will hold this position for a two year period throughout 2006 and 2007. We would like to acknowledge the contribution Arvind has made in guiding the Group through its start-up period and in establishing a positive working relationship with ESSD in general and the Bank's Forest Team in particular.

Our fourth meeting was insightful, if perhaps a little overloaded. The ESSD team did an excellent job in organizing the agenda, compiling the necessary documentation and arranging meetings with a large number of staff members from across the World Bank Group. We were able to explore further issues raised in earlier meetings, notably, progress towards ensuring that forest-related provisions in OP8.60 are adequately addressed and the role of the International Finance Corporation in the implementation of the World Bank's Forest Strategy.

In addition, we undertook a rapid but useful stock-taking exercise of the role and contribution of the External Advisory Group over the past two years. A brief summary of that process will be forwarded to you soon. The principal conclusion was that the EAG has made some positive contributions – including actively promoting the explicit inclusion of forests in OP8.60 - but that there still remains major challenges in closing the gap between what we as a group can reasonably be expected to deliver and the ever-growing expectations on the part of both Bank staff and the Bank's external constituencies. We are therefore proposing that we now focus more closely on the implementation of the Strategy and in particular: i) balance between the Strategy's three objectives, ii) resourcing and incentive structures, iii) harmonisation of approach across all instruments of the World Bank Group, iv) monitoring of outcomes and v) promotion of public disclosure. It is my intention as Chair to work with your staff over the next two years to mobilize the EAG's advice on these issues in a targeted and effective manner.

The following are some EAG perspectives relating to certain issues discussed at this meeting:

Implementation of the Forest Strategy: The members of the External Advisory Group felt that the overall portfolio of forest-related activities across the World Bank Group is still not adequately balanced between the three elements of the Strategy. In particular we are concerned that in practice greater emphasis tends to be placed on contributions to economic development rather than poverty reduction and the protection of global forest values. While we recognize that attaining a balanced approach requires much more than simply ensuring parity of resource allocation we do feel that regular and clear reporting to EAG meetings by Bank Staff on the different components of forest sector

lending would provide a useful “at-a-glance” indicator, assist the Group’s deliberations and improve the quality of advice that we offer.

Returning to a theme raised in our last letter to you, we had opportunity to learn more about the IFC’s approach to forest-sector investment and were grateful that senior IFC staff made the time to meet with us. We expressed our concern to Rachel Kyte and Dimitris Tsitsiragos that the poverty impacts, and thus the value proposition, of IFC forest-based lending were, at best, unclear. The failure of IFC to better coordinate the provision of loans to the private sector with IDA/IBRD’s public sector interventions in the same client countries not only misses opportunities for a more comprehensive approach to rural poverty reduction but increases the risk that some IFC investments actually undermine the Bank’s central mission. While we recognize that there is increasing collaboration between IFC and the ESSD Forest Team, particularly on small and medium forest enterprises, we feel that significant progress has yet to be made on group-wide alignment with respect to the Forest Strategy and that this has now become more of an imperative given the IFC Board’s recent adoption of its updated safeguard policies.

We welcome the forthcoming mid-term review of the Strategy and anticipate that this will provide a useful opportunity to further address those issues of balance and institutional coherence. The EAG is of the opinion that this review should be clearly perceived as being independent and therefore while we are happy to provide comments and inputs to the review team we believe that it serves all parties interests if we as individuals are not directly co-opted as reviewers. Additionally, we would be willing to comment upon the terms of reference with a view to providing our collective feedback to ESSD.

Due diligence on Development Policy Lending: We welcome the first year desk-based review that Muthukumara Mani undertook to screen DPL operations for potential negative impact on the environment, forests and other natural resources and suggest that you consider making this report, or a summary thereof, publicly available. That said, there remains a number of significant challenges that the Bank has yet to address. Given that such a review is only desk-based, it cannot substitute for more detailed upstream analysis within the CAS cycle. As your own report¹ highlights even with the rationalization and prioritization of due diligence processes, costs will still exceed present operational budgets. We are concerned that there appears to be too much reliance on trust funds and too much onus placed on ESSD staff alone. This situation highlights once again the pressing need to put in place an incentive structure to encourage adequate commitment of Country Offices to safeguard implementation. It also seems apparent to us that if adequate, ahead-of-time analytical information is not available to inform DPL processes, there is still much merit in investing in analytical work during the lifetime of the DPL and that such investments would add considerably to the Bank’s body of knowledge. We note that a modality to accommodate this has been suggested in the DPL and Forest Outcomes report.

Economic Recovery Credit III for Democratic Republic of Congo: We reviewed the issues surrounding the reference of the aforementioned programme to the Inspection Panel and have all agreed that it would be inappropriate to take a public position until the complaint process is concluded. We are of course prepared to give a collective position to the Inspection Panel if so requested. That said, the EAG was unanimous that irrespective of the findings of the Panel the Bank has an obligation to remain engaged in

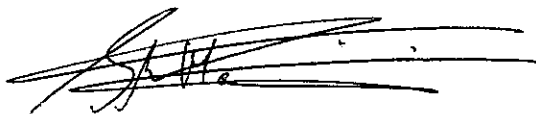
¹ Development Policy Lending and Forest Outcomes. May 2005 (Report 33537-GLB)

the broad forest sector of that country. To do so, however, will require an increased investment in good analytical work, better consultation processes with all key Congolese stakeholders, including indigenous peoples and community-based groups, and making those interventions that impact positively on the livelihoods of the rural poor a clear priority.

Forest Tenure and Rights (including market access): Interestingly although this was not a specific agenda item the issue came up repeatedly in virtually every single one of our discussions. This was particularly true when we considered opportunities for closer IFC / World Bank collaboration. Indeed we would argue that this is precisely where the collective force of the World Bank Group could make a powerful contributing to rural poverty reduction, with IDA/IBRD supporting sectoral reforms that strengthen the rights of poor people to access and manage forest resources while IFC mobilises the power of the private sector to develop new markets for the same resources. We reiterate our encouragement for the Bank to take a leadership role on this issue and would suggest that rights and tenure might be a unifying theme common to all the Forest Teams programme activities, including FLEG, WWF-World Bank Alliance and PROFOR.

Again we thank you and your colleagues in ESSD for the time and attention given to the EAG, and we value the opportunity to help advance a full and balanced implementation the Bank's forest strategy.

Yours sincerely



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